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COLORADO RIVER WATER CONSERVATION DISTRICT

INVESTMENT POLICY

I. OBJECTIVE:

The purpose of the Colorado River Water Conservation District investment policy is to manage the District's cash assets in a manner which will maximize return while controlling and minimizing risk. The District's investment policy shall comply with State and Federal laws governing investment of public monies and shall serve to assure that the Board of Directors of the District and its staff comply with and are protected by the laws which govern the investment of public monies. The policy shall facilitate the District's cash operating needs, as well as its investment objectives and demonstrate responsibility and prudence on the part of the District's Board of Directors and staff in the management of the District's investment and operating funds.

II. INVESTMENT COMMITTEE:

The District's Investment Committee shall authorize and direct all of the District's investments in consultation with the District staff and its financial advisor.

III. ELIGIBLE DEPOSITORY INSTITUTIONS:

The District shall, in accordance with all laws governing the investments of public entities in the State of Colorado (listed below in italics), invest only in instruments that are defined as eligible investments for public entities subject to any additional restrictions or authorizations (listed below in bold type) of this Investment Policy of the District.

IV. ELIGIBLE INVESTMENTS:

C.R.S. § 24-75-601.1. Legal investments of public funds.

(1) It is lawful to invest public funds in any of the following securities if the period from the date of purchase of such security to its maturity date is five years or less or if the governing body of the public entity authorizes investment for such period in excess of five years:

(a) Any security issued by, guaranteed by, or for which the credit of any of the following is pledged for payment: The United States, a federal farm credit bank, the federal land bank, a federal home loan bank, the federal home loan mortgage corporation, the federal national mortgage association, the export-import bank, or the government national mortgage association;

Under this authority, The Board of the Colorado River Water Conservation District by adoption of this policy authorizes that up to 50% of the funds in the Enterprise Account may be invested in securities with maturities of up to ten years. No more than 50% of all district's funds may be invested in any one of the following issuers authorized in this paragraph (a); the federal farm credit bank, the federal land bank, a federal home loan bank, the federal home loan mortgage corporation, the federal national mortgage association, the export-import bank, or the government national mortgage association.

(b) (I) Any security issued by, guaranteed by, or for which the credit of the following is pledged for payment: An entity or organization which is not listed in paragraph (a) of this subsection (I) but which is created by, or the creation of which is authorized by, legislation enacted by the United States congress and which is subject to control by the federal government which is at least as extensive as that which governs an entity or organization listed in paragraph (a) of this subsection (I).

(II) No security may be purchased pursuant to this paragraph (b) unless, at the time of purchase, the security is rated in its highest rating category by one or more nationally recognized organizations which regularly rate such obligations.

Only securities of the Tennessee Valley Authority may be purchased under this paragraph (b). No more than 50% of all district's funds may be invested in securities issued by the Tennessee Valley Authority.

(c) (I) Any security issued by, guaranteed by, or for which the credit of any of the following is pledged for payment: The world bank, the inter-American development bank, the Asian development bank, or the African development bank.

(II) No security may be purchased pursuant to this paragraph (c) unless, at the time of purchase, the security is rated in one of its two highest rating categories by one or more nationally recognized organizations which regularly rate such obligations.

No securities are authorized for purchase under this paragraph (c).

(d) (I) Any security that is a general obligation of any state of the United States, the District of Columbia, or any territorial possession of the United States or of any political subdivision, institution, department, agency, instrumentality, or authority of any of such governmental entities.

(II) No security may be purchased pursuant to this paragraph (d) unless:

(A) At the time of purchase, the security is rated in one of its three highest rating categories by one or more nationally recognized organizations which regularly rate such obligations; or

(B) At the time of purchase, the security is issued by the state of Colorado or any political subdivision, institution, department, agency, instrumentality, or authority of the state of Colorado; the issuer is rated in one of its three highest rating categories by one or more nationally recognized organizations that rate such issuers; and the security is secured by a pledge of loans, loan participations, or other assets that are insured or guaranteed by the United States or other entity identified in paragraph (a) of this subsection (1) or for which the credit of the United States or any such entity is pledged.

Only securities subject to federal income taxation may be purchased under this paragraph (d).

(e) (I) Any security that is a revenue obligation of any state of the United States, the District of Columbia, or any territorial possession of the United States or of any political subdivision, institution, department, agency, instrumentality, or authority of any of such governmental entities.

(II) No security may be purchased pursuant to this paragraph (e) unless, at the time of purchase, the security is rated in one of its two highest rating categories by one or more nationally recognized organizations which regularly rate such obligations.

Only securities subject to federal income taxation may be purchased under this paragraph (e).

(f) (I) Any banker's acceptance that is issued by a state or national bank which has a combined capital and surplus of at least two hundred fifty million dollars.

(II) No security may be purchased pursuant to this paragraph (f) unless:

(A) The deposits of such bank are insured by the federal deposit insurance corporation; and

(B) At the time the security is purchased, the long-term debt of such bank or the holding company of such bank is rated in one of its three highest rating categories by one or more nationally recognized organizations which regularly rate such obligations.

Banker's acceptances purchased under this paragraph (f) may not exceed 90 days in maturity, they must carry at least two short term credit ratings issued by either Moody's, Standard & Poor's, Fitch or Duff & Phelps, and no short term credit rating issued by Moody's, Standard & Poor's, Fitch or Duff & Phelps may be below P-1, A-1, F-1 or D-1 respectively. No more than 25% of all district's funds may be invested in banker's acceptances with more than 10% of all district funds invested in securities of any single issuer.

(g) Commercial paper that, at the time of purchase, is rated in its highest rating category by one or more nationally recognized organizations which regularly rate such obligations;

Commercial paper purchased under this paragraph (g) may not exceed 90 days in maturity, they must carry at least two short term credit ratings issued by either Moody's, Standard & Poor's, Fitch or Duff & Phelps, and no short term credit rating issued by Moody's, Standard & Poor's, Fitch or Duff & Phelps may be below P-1, A-1, F-1 or D-1

respectively. No more than 50% of all district's funds may be invested in commercial paper with more than 10% of all district funds invested in securities of any single issuer.

(h) Any security of the investing public entity or any certificate of participation or other security evidencing rights in payments to be made by the investing public entity under a lease, lease-purchase agreement, or similar arrangement;

(i) Any interest in any local government investment pool organized pursuant to part 7 of this article;

No more than 50% of the district's funds may be invested in any single local government investment pool. Eligible local government investment pools will carry a credit rating of AAAM from Standard & Poor's.

(j) Any repurchase agreement concerning any securities referred to in paragraph (a) or (b) of this subsection (I) that can otherwise be purchased under this section if all of the conditions of subparagraphs (I) to (IV) of this paragraph (j) are met:

(I) Except for investments by the state treasurer, the securities subject to the repurchase agreement must have a coupon rate that is fixed from the time of settlement until its maturity date, and must be marketable.

(II) The title to or a perfected security interest in such securities along with any necessary transfer documents must be transferred to the investing public entity or to a custodian acting on behalf of the investing public entity.

(III) Such securities must be actually delivered to the public entity or to a third-party custodian or third-party trustee for safekeeping on behalf of the public entity.

(IV) Except for investments by the state treasurer, the collateral securities of the repurchase agreement must be collateralized at no less than one hundred two percent and marked to market no less frequently than weekly.

The securities in the repurchase agreement must also be eligible as an allowable security under the further restrictions of this policy. No more than 25% of the District's funds may be invested in repurchase agreement with any single counter-party.

(k) Any money market fund that is registered as an investment company under the federal "Investment Company Act of 1940", as amended, if, at the time the investing public entity invests in such fund:

(I) The investment policies of the fund include seeking to maintain a constant share price;

(II) No sales or load fee is added to the purchase price or deducted from the redemption price of the investments in the fund;

(III) The investments of the fund consist only of securities with a maximum remaining maturity as specified in rule 2a-7 under the federal "Investment Company Act of 1940", as amended, or any successor regulation under such act regulating money market funds, so long as such rule 2a-7 is not amended to, or such successor regulation does not, increase the maximum remaining maturity of such securities to a period that is greater than three years, and if the fund has assets of one billion dollars or more, or has the highest current credit rating from one or more

nationally recognized organizations that regularly rate such obligations, or consists of the following:

- (A) Securities listed in paragraphs (a) to (j) of this subsection (1); or
- (B) Perfected reverse repurchase agreements which mature within thirty days and which provide for the simultaneous sale and repurchase by the fund at a future date of securities listed in paragraphs (a) to (i) of this subsection (1); or
- (C) Any securities not listed in paragraphs (a) to (j) of this subsection (1) the interest on which is not includable in gross income for federal income tax purposes if such securities do not exceed fifteen percent of the investments of the fund, based on the purchase price of all securities held by the fund; and
- (D) (Deleted by amendment, L. 95, p. 772, § 1, effective May 24, 1995.)
- (IV) The dollar-weighted average portfolio maturity of the fund meets the requirements specified in rule 2a-7 under the federal "Investment Company Act of 1940", as amended, or any successor regulation under such act regulating money market funds, so long as such rule 2a-7 is not amended to increase the dollar-weighted average portfolio maturity of a fund to a period greater than one hundred eighty days.

No more than 50% of the district's funds may be invested in any single money market mutual fund. Eligible local government investment pools will carry a credit rating of AAAm from Standard & Poor's.

(l) (I) Any guaranteed investment contract, guaranteed interest contract, annuity contract, or funding agreement issued by an insurance company, either domestic or foreign, as defined in section 10-1-102 (8) and (9), C.R.S., that holds a certificate of authority issued pursuant to section 10-3-105, C.R.S.

(II) No contract or agreement may be purchased under this paragraph (l) unless, at the time of purchase, the issuing company's ability to pay claims is rated in its highest rating category by one or more nationally recognized organizations which regularly rate the abilities of insurance companies to pay claims.

(III) A contract or agreement may be purchased under this paragraph (l) only if such contract or agreement is purchased with proceeds of the sale of securities of a public entity and proceeds of certificates of participation or other securities evidencing rights in payments to be made by a public entity under a lease, lease-purchase agreement, or other similar arrangement; except that, no contract or agreement may be purchased pursuant to this paragraph (l) with the proceeds of any of the foregoing which are held in an escrow or otherwise for the purpose of refunding bonds or other obligations of a public entity.

No securities are authorized for purchase under this paragraph (l).

(m) (I) Any United States dollar denominated corporate or bank debt issued by a corporation or bank which is organized and operated within the United States and has a net worth in excess of two hundred fifty million dollars; except that the notes evidencing the debt must mature within three years from the date of settlement and, at the time of purchase, the debt must carry at least two credit ratings from any of the nationally recognized credit rating agencies and must not be rated below "AA- or Aa3" by any credit rating agency.

(II) At no time shall the book value of a public entity's investment in notes evidencing a debt pursuant to this paragraph (m) exceed the following:

(A) Thirty percent of the book value of the public entity's investment portfolio; or

(B) Five percent of the book value of the public entity's investment portfolio if the notes are issued by a single corporation or bank.

Corporate debt instruments purchased under this paragraph (m) must carry at least two short term credit ratings issued by either Moody's, Standard & Poor's, Fitch or Duff & Phelps, and no term credit rating issued by Moody's, Standard & Poor's, Fitch or Duff & Phelps may be below Aa3, AA-, AA- or AA- respectively.

(n) A securities lending agreement using any securities authorized in paragraph (a) or (b) of this subsection (1) if all of the following conditions are met:

(I) The securities lending agreement is entered into with a qualified provider;

(II) The securities lending agreement requires the qualified provider to provide and maintain collateral with a mutually agreed-upon custodian. Such collateral shall be in the form of either cash, which the qualified provider may invest in a permitted investment stated in the securities lending agreement, or securities that are authorized investments for the public entity. Such collateral shall have a value that is equal to or greater than one hundred two percent of the value of the securities lent by the public entity plus any accrued interest. If the collateral is in the form of corporate securities, the collateral shall have a value that is equal to or greater than one hundred five percent of the value of the securities.

(III) Either the custodian or the qualified provider if verified by the custodian marks to market daily the value of the collateral with all differences in valuation resolved on a daily basis; except that, if all of the collateral is cash, the difference in valuation need only be resolved at such time as the value of the collateral is less than one hundred percent of the value of the securities;

(IV) With respect to permitted investments purchased with cash received as collateral to a securities lending agreement:

(A) A minimum of twenty percent of such permitted investments matures or is redeemable on any business day;

(B) A permitted investment in the form of an instrument that is issued or guaranteed by the United States government or any agency thereof and that has a variable rate of interest set off of a money market index, readjusted no less frequently than every ninety-five days, is treated, for purposes of this paragraph (n), as having a maturity equal to the period remaining until the next readjustment of the interest rate;

(C) A permitted investment in the form of an instrument that is issued by a corporation that has a variable rate of interest set off of a money market index, readjusted no less frequently than every ninety-five days, is a final maturity not to exceed four hundred thirty days or an unconditional put back to the issuer not to exceed ninety-five days;

(D) The maximum maturity on any fixed rate investments or repurchase agreements does not exceed one hundred ninety days; and

(E) The investment maturity or reset date for such permitted investment is not greater than ninety-five days unless the securities lending agreement term and the permitted investment are matched to each other.

(V) In the case of local government, the securities lending agreement is approved and designated

by written resolution duly adopted by a majority vote of the governing body of such local government, which resolution shall be recorded in its minutes.

No securities lending agreements have been approved by the Board of the Colorado River Water Conservation District.

(1.3) (a) Except as provided in paragraph (b) of this subsection (1.3), public funds shall not be invested in any security on which the coupon rate is not fixed from the time the security is settled until its maturity date, other than shares in qualified money market mutual funds, unless the coupon rate is:

(I) Established by reference to the rate on a United States treasury security with a maturity of one year or less or to the United States dollar London interbank offer rate of one year or less maturity, or to the cost of funds index or the prime rate as published by the federal reserve; and
(II) Expressed as a positive value of the referenced index plus or minus a fixed number of basis points.

(b) A municipal index may be used for the investment of bond or note accounts from issues with coupons linked to the same index.

(c) For purposes of this section, "maturity date" means the last possible date, barring default, that principal can be repaid to the purchaser.

Only securities purchased under paragraph (a) of the CRS 24-75-601.1 may use these limited derivative structures.

(1.5) Any firm that sells any financial instrument that fails to comply with the provisions of this section, except for instruments representing interests in a money market fund covered by the federal "Investment Company Act of 1940", as amended, to any public entity in the state of Colorado shall, upon demand of the public entity through the state treasurer, repurchase such instruments for the greater of the original purchase principal amount or the original face value, plus any and all accrued interest, within one business day of the demand.

(2) Investments made pursuant to this section shall be made in conformance with the standard set forth in section 15-1-304, C.R.S.

(2.5) (a) If a public entity invests public moneys through an investment firm offering for sale corporate stocks, bonds, notes, debentures, or a mutual fund that contains corporate securities, the investment firm shall disclose, in any research or other disclosure documents provided in support of the securities being offered, to the public entity whether the investment firm has an agreement with a for-profit corporation that is not a government-sponsored enterprise, whose securities are being offered for sale to the public entity and because of such agreement the investment firm:

(I) Had received compensation for investment banking services within the most recent twelve months; or

(II) May receive compensation for investment banking services within the next three consecutive months.

(b) For the purposes of this subsection (2.5), "investment firm" means a bank, brokerage firm, or other financial services firm conducting business within this state, or any agent thereof.

(3) Nothing in this section is intended to limit:

(a) The power of any public entity to invest any public funds in any security or other investment permitted to such public entities under any other valid law of the state; or

(b) The power of any home rule city, city and county, town, or county to invest any public funds in any security or other investment permitted under the charter or ordinance of such home rule city, city and county, town, or county; or

(c) The authority of the state board of regents to invest any funds available to the board in any security or other investment otherwise provided by law.

(3.5) Notwithstanding the limitations stated in the introductory portion to subsection (1) of this section, the securities subject to a repurchase agreement authorized in paragraph (j) of said subsection (1) and the securities authorized in sub-subparagraph (B) of subparagraph (II) of paragraph (d) of said subsection (1) may have a maturity in excess of five years.

(4) Nothing in this section is intended to apply to public funds held or invested as part of any pension plan, full or supplemental retirement plan, or deferred compensation plan.

V. APPROVED INVESTMENT PROCEDURE:

Recognizing the need to offer flexibility in administering the District's day-to-day operating expenses, the Board of Directors recognizes that cyclical investment and withdrawal are appropriate, including, but not necessarily limited to, the following accounts:

The District Enterprise Accounts;

The District Administrative Accounts;

The District Bluestone Account; and

The District Capital Projects Other.

The Bluestone Account and any other accounts governed by a separate management committee may be invested pursuant to the direction of that management committee. In the absence of specific direction by formal action of the management committee, these accounts shall be invested in the same manner as all other District accounts.

The Board of Directors has hired the firm of Kirkpatrick Pettis Capital Management (formerly LBC) as its investment advisor to handle the District's investments. Kirkpatrick Pettis is responsible for Cash Flow Forecasting, Investment Advice and Investment Program Management. The Board of Directors authorizes Cheryl Dunlap, Senior Accountant and Rob Streit, Senior Accountant, to handle the processing of Kirkpatrick Pettis's recommendations for the above-mentioned accounts, subject to the approval by the Secretary, or his designee, and the approval of any one of the Committee Chairperson, District President, or District Vice-President. Since every effort shall be made to ensure that the transaction is completed within one business day, transaction approval may be granted verbally but signature approval must be secured within three business days following the transaction.

VI. INVESTMENT ADVISORY FIRMS:

The District shall use a formal request for proposal (RFP) process when selecting an investment advisory firm. Once selected, the approved investment advisory firm must, at a minimum:

- 1) Meet with the District's staff and/or the District's Investment Committee quarterly;
- B) Provide monthly reports on the District's investment portfolio indicating the previous balance, current balance and monthly changes as well as any transaction (e.g., purchase, sale, etc.) completed within that month for each fund under the firm's management; and
- C) Provide documentation of each completed purchase and sale transaction.

VII. REVIEW AND AUDIT OF INVESTMENTS:

All investments of the District shall be subject to annual review, audit and examination by the District's auditor and/or accountant.

VIII. REVIEW OF INVESTMENT POLICY:

This investment policy shall be subject to mandatory review by the Board of Directors upon request by the District Officers or Board of Directors.

IX. PLACE OF INVESTMENTS:

All investments shall be made in the State of Colorado with the preference that investments be made in or through Colorado West Slope financial institutions. The maximum allowable certificate of deposit investment in any one bank holding company shall be \$2,500,000.